# What is "industrial" and "industry"?

The words "industry" and "industrial" often conjure up images of block-long manufacturing buildings, smokestacks, and assembly lines, often in areas of the city with a somewhat gritty appearance.

In fact, and during contemporary times, "industry" is no longer so narrowly defined and, instead, covers all economic endeavors.

Moreover, "industries" can be found in every locale – agriculture in rural areas; hospitality industries, such as hotels and coffee shops, along urban commercial streets; web site designers in live-work situations in residential neighborhoods; and, medical device production in industrially-zoned lands near interstate highways.

This was brought into sharper focus when the federal Office of Management and Budget in the late 1990s announced a new and revamped system of classifying industrial data, the North American Industrial Classification System — or NAICS ("nakes").

## Why a new industrial classification system?

The new system was necessitated by shifts in the U. S. economy towards services and information technology and away from heavy manufacturing. The Standard Industrial Classification (SIC) system had been in use for approximately 60 years and, because it lacked appropriate categories for emerging industries, it was becoming increasingly irrelevant to the contemporary economy. A primary rationale for development of NAICS was the need to identify and accommodate new and rapidly-expanding industries.

Another critical contrast with the SIC system is how businesses are grouped together. SIC often lumped together businesses having substantially different activities. One example is in the Wholesale and Retail Trades. SIC defined an establishment as Wholesale or Retail on the basis of who it sold to. Retailers sold primarily to consumers, while wholesalers sold primarily to business customers. **Under NAICS, the determination is made on the basis of how the business operates rather than the nature of its customers.** Retailers are defined as those businesses that typically sell smaller quantities of merchandise from a place of business open to the public with their stock on display or available through retail clerks. Wholesalers, on the other hand, sell larger quantities from a warehouse or office that is not intended to attract walk-in business and which does not have merchandise on display.

#### The core of the NAISC system

NAICS was developed on the principle that firms are classified solely by the processes used in production.

To that end, each industry sector and subsector is placed into the appropriate group, either goods-producing industries or service-producing industries.

#### **NAICS** structure

NAICS revamps industrial definitions and categories and adopts a six-digit hierarchical coding system, with the first two digits identifying the industrial sector, the third the subsector, the fourth the industry group, and the fifth the detailed industry. The sixth digit is reserved for optional use by each of the three NAFTA countries, the U. S., Canada, and Mexico, to identify industries that may be unique to them.

11 - Agriculture, Forestry, Fishing, and Hunting 21 - Mining
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23 - Construction
31-33 - Manufacturing
42 - Wholesale Trade
44-45 - Retail Trade
48-49 - Transportation and Warehousing
22 - Utilities
52 - Finance and Insurance
53 - Real Estate and Rental and Leasing
51 - Information
54 - Professional, Scientific, and Technical Services
55 - Management of Companies and Enterprises
56 - Administrative & Support, Waste Management & Remediation Services
61 - Educational Services
62 - Health Care and Social Assistance
71 - Arts, Entertainment, and Recreation
72 - Accommodations and Food Services
81 - Other Services (Except Public Administration)
92 - Public Administration

One example is # 53, Information, a new sector, combining communications, publishing, motion picture and sound recording, and online services. Manufacturing was restructured to recognize new high-tech industries, with a new sub-sector devoted to computers and electronics, including software reproduction. NAICS includes nine new service sectors and 250 new service industries.

### Sources:

- NAICS: Keeping Up With a Changing Economy. Steve Hine, Senior Economist, Minnesota Department of Employment and Economic Development (September 2001).
- U. S. Bureau of Labor Statistics <a href="www.bls.gov/bls/naisc.htm">www.bls.gov/bls/naisc.htm</a>